AND
BRIEFS

Supreme Court, U.S.
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No. 16-341

IN THE

Supreme Court of the United States

TC HEARTLAND LLC,

Petitioner,

v.

KRAFT FOODS GROUP BRANDS LLC,

Respondent.

On Writ of Certiorari
To The United States Court of Appeals
For The Federal Circuit

BRIEF OF GENERAL ELECTRIC COMPANY AS *AMICUS CURIAE* SUPPORTING NEITHER PARTY

Buckmaster de Wolf
Paul R. Garcia
GENERAL ELECTRIC COMPANY
41 Farnsworth Street,
Boston, MA 02210

Robert A. Long, Jr.
Counsel of Record
Richard L. Rainey
Ivano Ventresca
COVINGTON & BURLING LLP
One CityCenter
850 Tenth Street, NW
Washington, DC 20001-4956
rlong@cov.com
(202) 662-6000

Counsel for Amicus Curiae

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INTEREST OF *AMICUS CURIAE*

General Electric Company is one of the most experienced and successful innovators in the United States.[1] Founded when the Edison General Electric Company merged with other electric companies in 1892, GE is the only original component of the Dow Jones Industrial Average still included in that index today. Each year, GE spends billions of dollars on research and development. It employs hundreds of thousands of individuals to develop, produce, and market its innovative products worldwide. To protect its innovations, GE holds thousands of U.S. patents and files for thousands of additional patents each year.

GE participates in patent litigation in a wide variety of roles: as a plaintiff and as a defendant; as a patent holder and as an accused infringer; and as a practicing entity and as a non-practicing entity. As a result, GE has a strong interest in the correct and balanced interpretation of 28 U.S.C. § 1400(b), which establishes special venue rules for patent infringement cases. In GE's view, the Federal Circuit's current interpretation of that provision is incorrect and overbroad, and is having a

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[1] Pursuant to Rule 37.6, GE affirms that no counsel for a party authored this brief in whole or in part, and that no person other than *amicus* or its counsel made any monetary contributions intended to fund the preparation or submission of this brief. A letter from Petitioner's counsel consenting to the filing of all timely *amicus* briefs, and written consent from Respondent's counsel to the filing of this brief, have been submitted to the Clerk.

disproportionately negative impact on defendants. GE files this brief to offer its views, as a successful innovator and experienced patent litigant, concerning the appropriate interpretation of this important venue statute.

SUMMARY OF ARGUMENT

1. This Court has held that 28 U.S.C. § 1400(b), the special venue statute that applies to patent infringement cases, is not to be "supplemented" by the general venue statute. *Fourco Glass Co. v. Transmirra Prods. Corp.*, 353 U.S. 222, 229 (1957). Despite this holding, the Federal Circuit has held that the term "resides" in Section 1400(b) is defined by the general venue statute. The Federal Circuit's interpretation of Section 1400(b) is incorrect and contrary to this Court's prior decisions. It also is having a significant and unfair impact on defendants accused of patent infringement.

By extending the limits of venue to the extreme constitutional limit of a district court's power to exercise personal jurisdiction over a defendant, the Federal Circuit has allowed patent infringement litigation to become concentrated in a few district courts. Patent holders file a disproportionate number of cases in districts that have adopted rules and procedures tending to favor patent holders. This phenomenon is particularly troubling with respect to the many patent infringement cases filed by non-practicing entities and settled for less than the cost of litigating the case to judgment. In such cases, plaintiffs are attracted by rules and procedures that increase the nuisance value of patent litigation. For

example, (i) courts that take a relatively long time to rule on motions to transfer and motions for summary judgment, and that are unlikely to stay discovery while motions to transfer are pending, (ii) courts that allow relatively wide-ranging discovery on an accelerated schedule, and (iii) courts that are less likely to grant transfer and summary judgment motions increase the nuisance value of patent litigation and impose significant costs on defendants.

2. The Federal Circuit's interpretation of Section 1400(b) is inconsistent with the statutory language and with this Court's prior decisions interpreting that language. Section 1400(b) refers to "the" judicial district where the defendant "resides," indicating there is only one such district. Moreover, the Federal Circuit's in erpretation of "resides" turns the second clause of Section 1400(b) into surplusage as applied to corporate defendants. Indeed, the Federal Circuit's interpretation effectively repeals Section 1400(b) in its entirety as applied to corporations, by eliminating *all* statutory restrictions on venue and leaving only constitutional restrictions on personal jurisdiction that would apply even in the absence of a statute. In addition, a closely-related statutory provision governing service of process in patent cases defines "resident" in a way that is different from, and much narrower than, the Federal Circuit's interpretation of "resides" in Section 1400(b).

This Court has already held that the term "resides" in Section 1400(b) refers to a corporate defendant's place of incorporation, and that Section 1400(b) is not supplemented by the general venue

statute. *Fourco*, 353 U.S. at 226, 229. A 1988 amendment to the general venue provisions did not express a clear and manifest legislative intent to alter the meaning of Section 1400(b). In any event, Congress amended the general venue provisions again in 2011 so they now closely track the language in effect when the Court decided *Fourco*.

3. The Court should reaffirm that the term "resides" in Section 1400(b) refers to a corporate defendant's place of incorporation. If the defendant's principal place of business differs from its place of incorporation, the second clause of Section 1400(b) often will permit a plaintiff to sue in the defendant's principal place of business. When a plaintiff seeks to establish venue based on allegations that the defendant has a regular and established place of business in the district and committed acts of infringement there, it should be required to allege a connection between the place of business and the acts of infringement.

ARGUMENT

I. The Federal Circuit's Incorrect Interpretation Of Section 1400(b) Is Having An Unfair Impact On Defendants Accused Of Patent Infringement.

Section 1400(b) of Title 28, U.S. Code, provides that a "civil action for patent infringement may be brought in the judicial district where the defendant resides, or where the defendant has committed acts of infringement and has a regular and established place of business." This Court has twice held that this special venue statute "is the sole and exclusive

provision controlling venue in patent infringement actions," and is not "supplemented" by the general venue statute, currently codified at 28 U.S.C. § 1391(c). *Fourco*, 353 U.S. at 229; *Stonite Prods. Co. v. Melvin Lloyd Co.*, 315 U.S. 561, 563 (1942).

Despite this Court's clear rulings, the Federal Circuit nevertheless has held that the term "resides" in Section 1400(b) is defined by Section 1391(c). *See VE Holding Corp. v. Johnson Gas Appliance Co.*, 917 F.2d 1574, 1579-80 (Fed. Cir. 1990). Section 1391, unlike Section 1400(b), does not specifically address venue in patent infringement cases. Instead, it is a general venue statute that states "[e]xcept as otherwise provided by law," 28 U.S.C. § 1391(a), a defendant corporation is "deemed to reside . . . in any judicial district in which such defendant is subject to the court's personal jurisdiction with respect to the civil action in question," *id.* § 1391(c)(2). The Federal Circuit's interpretation of Section 1400(b) permits patent holders to file patent litigation in any district court in the country, subject only to the constitutional limits on a district court's ability to exercise personal jurisdiction over the accused infringer. The Federal Circuit's expansive approach to personal jurisdiction, *see Beverly Hills Fan Co. v. Royal Sovereign Corp.*, 21 F.3d 1558, 1565-69 (Fed. Cir. 1994), has further stretched the boundaries of permissible venue in patent cases.

For the reasons explained in Petitioner's Opening Brief and in Part II of this brief, the Federal Circuit's interpretation of Section 1400(b) is plainly incorrect. In addition to being wrong, the Federal Circuit's interpretation is having a significant, and

disproportionately negative, impact on accused infringers. As a result of the Federal Circuit's wide-open interpretation of Section 1400(b), patent holders are able to file a very large percentage of patent cases in only a few district courts. In 2015, for example, more than half of all such cases were filed in just two districts: the Eastern District of Texas (43.6%) and the District of Delaware (9.4%). *See* Brian J. Love & James Yoon, *Predictably Expensive: A Critical Look at Patent Litigation in the Eastern District of Texas*, 20 Stan. Tech. L. Rev. 1, 8 (2017).[2] This heavy concentration of patent cases in just two districts undermines Congress's decision to de-centralize patent litigation at the district court level while centralizing patent appeals at the Federal Circuit. *See* S. Rep. No. 97-275 (1981), *as reprinted in* 1982 U.S.C.C.A.N. 11, 15.

The problems created by the Federal Circuit's interpretation of Section 1400(b) go beyond mere concentration. Patent holders alleging infringement file a disproportionate number of patent cases in districts that have adopted rules and procedures that tend to favor patent holders.

- The Eastern District of Texas, for example, takes a relatively long time to rule on motions to transfer a patent case to another district, as well as on motions for summary judgment. *See* Love & Yoon, *supra*, at 16-18 (reporting that the

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[2] Similarly, in 2014 those two districts accounted for almost half of all patent filings (28.1% and 18.6%, respectively). *See* Love & Yoon, *supra*, at 8.

Eastern District took over 100 days longer than the average district to grant motions to transfer and motions for summary judgment).

- The Eastern District is also somewhat less likely to grant transfer and summary judgment motions filed by accused infringers. *See id.* at 17 (transfer granted in about 47% of cases, compared to 53% in other district courts); *id.* at 18 (summary judgment in favor of accused infringers granted about 18% of the time, compared to 34% in other district courts). The lower success rate of summary judgment motions leads to more patent cases going to trial, and when cases go to trial in the Eastern District, juries are somewhat more likely to side with patent holders. *Id.* at 18-19.

- A defendant is unlikely to be able to stay discovery until the Eastern District rules on a motion to dismiss or motion to transfer. *See* E.D. Tex. R. CV-26(a) ("Absent court order to the contrary, a party is not excused from responding to discovery because there are pending motions to dismiss, to remand, or to change venue."). Indeed, discovery will often be *completed* by the time that court decides that venue is improper. *See* Love & Yoon, *supra*, at 16-17, 22 (in the Eastern District of Texas, document production must be finished within ten months and transfer motions typically take close to a year to decide).

- Discovery is typically wide-ranging. A standard discovery order used in many cases requires parties to produce documents "relevant to the pleaded claims or defenses" in the action. *See*

Sample Discovery Order for Patent Cases Assigned to Judge Rodney Gilstrap and Judge Roy Payne (Nov. 4, 2016), *available at* http://www.txed.uscourts.gov/page1.shtml?location=info:judge&judge=17. This rule "obviate[s] the need for requests for production" usually required by the Federal Rules of Civil Procedure. *Id.* Discovery timelines in the Eastern District of Texas also are somewhat shorter than in other districts. *See* Daniel Klerman & Greg Reilly, *Forum Selling*, 89 S. Cal. L. Rev. 241, 265-66 (2016).

The adverse impact of these practices and procedures on defendants is greatest in cases brought by non-practicing entities who are willing to settle their claims for less than the nuisance value of litigation (i.e., the cost of litigating the case through summary judgment). *See* Federal Trade Commission, *Patent Assertion Entity Activity: An FTC Study* (Oct. 2016), *available at* https://www.ftc.gov/reports/patent-assertion-entity-activity-ftc-study. In such cases, the patent holders' settlement practices indicate that "discovery costs, and not the technological value of the patent, may set the benchmark for settlement value." *Id.* at 10. By adopting rules and procedures that increase the nuisance value of patent litigation, courts impose significant costs on productive businesses without advancing the purposes of the patent laws. *See id.* at 9 ("Nuisance infringement litigation . . . can tax judicial resources and divert attention away from productive business behavior."); Love & Yoon, *supra*, at 23-24 ("[B]y virtue of being sued in the Eastern District, an accused infringer will be forced to incur

large discovery costs, regardless of the case's connection to East Texas or the merits of its noninfringement contentions.").[3]

Motions to transfer and petitions for mandamus to the Federal Circuit are, at best, a partial and unsatisfactory solution to these problems. By taking longer to rule on a motion to transfer while requiring the parties to proceed with discovery, a district court can significantly increase the cost of nuisance litigation even if the transfer motion is ultimately granted. Moreover, transfer motions are often denied, and mandamus petitions to the Federal Circuit are a cumbersome, expensive, and unreliable mechanism for dealing with the situation.[4]

The language of Section 1400(b), as well as this Court's decisions, require a more balanced approach to venue in patent infringement cases. Such a

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[3] Commentators have debated whether the adverse effects described above result from "forum selling" by courts or simply from variations in the district courts' workloads and approaches to discovery rules and schedules. *See* Klerman & Reilly, *supra*, at 265-80; Xuan-Thao Nguyen, *Justice Scalia's "Renegade Jurisdiction": Lessons for Patent Law Reform*, 83 Tul. L. Rev. 111, 136–43 (2008). Whatever the source of the disparities, the Federal Circuit's interpretation of Section 1400(b) has allowed an undue concentration of patent cases in a few district courts, and is unfairly harming defendants sued by non-practicing entities seeking "nuisance" settlements.

[4] GE takes no position on whether mandamus is appropriate in this case, and therefore is filing this brief in support of neither party.

balanced approach will address all of the issues described above by limiting the number of cases in which patent-holders can select a district court with only a minimal connection to the parties and the dispute.

II. The Federal Circuit's Interpretation Of Section 1400(b) Is Inconsistent With The Statutory Language And This Court's Prior Decisions.

The Federal Circuit's interpretation of Section 1400(b) is not consistent with the statutory language. Congress referred to "the" judicial district where the defendant "resides," indicating that there is only one such district. This was clearly the case, for corporate defendants as well as individual defendants, at the time Congress enacted Section 1400(b). *See Shaw v. Quincy Mining Co.*, 145 U.S. 444, 449 (1892); *Fourco*, 353 U.S. at 226 (citing *Shaw*). Moreover, if the term "resides" can be interpreted to mean "any judicial district in which [the] defendant is subject to the court's personal jurisdiction with respect to the civil action in question," 28 U.S.C. § 1391(c)(2), then the patent holders' choice of venue extends well beyond districts "where the defendant has committed acts of infringement and has a regular and established place of business," *id.* § 1400(b). Indeed, the Federal Circuit's interpretation of "resides" turns the second clause of Section 1400(b) into surplusage as applied to corporate defendants, because a corporation that has a regular and established place of business in a district, and is alleged to have committed acts of infringement there, is subject to the court's personal

jurisdiction and therefore meets the Federal Circuit's definition of "resides." The Federal Circuit's interpretation actually goes even further. By interpreting the term "resides" to extend to the constitutional limits of personal jurisdiction, the Federal Circuit has eliminated *any* non-constitutional limitation on the plaintiff's choice of forum. As a practical matter, the Federal Circuit has repealed Section 1400(b) in its entirety as applied to corporations. This result is inconsistent with Congress's intent to limit venue in patent cases. *See Pure Oil Co. v. Suarez*, 384 U.S. 202, 207 (1966).

A statutory provision governing service of process in patent cases, 28 U.S.C. § 1694, casts additional doubt on the Federal Circuit's interpretation of Section 1400(b). Congress enacted both provisions at the same time in a single statute, and thus the two provisions must be interpreted *in pari materia*. *See generally Erlenbaugh v. United States*, 409 U.S. 239, 243-44 (1972). Section 1694 refers to a district in which "the defendant is not a resident but has a regular and established place of business." A "resident" clearly is a person who "resides" in the district. Moreover, Section 1694 is not a venue statute and thus is not subject to the general venue provisions in Section 1391. The Federal Circuit's interpretation of Section 1400(b) thus gives the term "resides" in Section 1400(b) a different, and much broader, meaning, than the term "resident" in Section 1694. This is contrary to the principle of statutory construction that a term used in different provisions of a statute generally is given the same meaning. *See Mohasco Corp. v. Silver*, 447 U.S. 807, 826 (1980).

This Court has interpreted Section 1400(b) in previous cases, yet the Federal Circuit's interpretation marks a sharp and unjustified departure from this Court's construction. In *Fourco*, this Court held that the term "resides" in section 1400(b) is defined, for a corporation, as the place of incorporation, and does not include Section 1391(c)'s residence provisions. *See* 353 U.S. at 226. In *Pure Oil*, the Court explained that in interpreting Section 1400(b) it was "merely following the purpose and letter of the original enactment," which was to "narrow venue" in patent cases. 384 U.S. at 207.[5] And in *Brunette Machine Works, Ltd. v. Kockum Industries, Inc.*, 406 U.S. 706 (1972), the Court reiterated its consistent view that Section 1400(b) is independent of Section 1391(c). *See id.* at 713 ("Congress placed patent infringement cases in a class by themselves, outside the scope of general venue legislation.").

Decisions such as *Fourco* that interpret the meaning of statutory language "effectively become part of the statutory scheme." *Kimble v. Marvel Entm't, LLC*, 135 S. Ct. 2401, 2409 (2015). Absent "a

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[5] *Pure Oil* does not support the Federal Circuit's interpretation. In that case, the Court held that the Jones Act's venue provision incorporated Section 1391(c)'s definition of corporate residence. The Court explained that the Jones Act's venue provision, unlike Section 1400(b), was not intended to narrow venue. *See Pure Oil*, 384 U.S. at 207 ("The patent infringement venue statute was enacted in 1897, 29 Stat. 695, specifically to narrow venue in such suits.").

clear and manifest" expression of Congress's intent to amend section 1400(b), *Fourco*'s interpretation is the law. *Nat'l Ass'n of Home Builders v. Defs. of Wildlife*, 551 U.S. 644, 662, 664 n.8 (2007) (citation omitted).

Contrary to the Federal Circuit's stated view, *VE Holding Corp.*, 917 F.2d at 1579-80, the 1988 amendment to Section 1391(c) did not amount to a "clear and manifest" expression of Congress's intent to alter the meaning of Section 1400(b). That 1988 amendment added the phrase "[f]or purposes of venue under this chapter" to Section 1391(c). Although Sections 1391(c) and 1400(b) are in the same chapter, Section 1400(b) "specifically deal[s] with[ ]" a corporation's residence for venue purposes in patent infringement cases, and therefore "the general language of [Section 1391(c)] . . . will not be held to apply." *Fourco*, 353 U.S. at 228-29 (citations omitted). The result would be no different if Congress had added a provision to Section 1400(b) defining "resides" for a corporation as "the place of incorporation." In that situation, "ordinary rules of statutory construction would prefer the specific definition over the . . . general one." *Rowland v. Cal. Men's Colony, Unit II Men's Advisory Council*, 506 U.S. 194, 200 (1993). The fact that the definition of "resides" in Section 1400(b) rests in part on this Court's decisions interpreting that provision does not alter the conclusion that Section 1400(b) is more specific than, and thus unaffected by, Section 1391(c).

In 2011, moreover, Congress again amended Section 1400(b), so that its language now closely

tracks the statutory language in effect when the Court decided *Fourco*. *Compare* 28 U.S.C. § 1391(c) (1952) (stating that Section 1391(c) applies "for venue purposes"), *with* 28 U.S.C. § 1391(c) (2012) (stating that Section 1391(c) applies "[f]or all venue purposes"). Congress's enactment in 2011 of language that closely parallels the pre-1988 provision, without expressing any disapproval of this Court's interpretation in *Fourco*, lends further support to the conclusion that the Court's longstanding interpretation of Section 1400(b) remains valid.

III. Adhering To The Language Of Section 1400(b) And To This Court's Decisions Interpreting That Language Will Alleviate The Harm Caused By The Federal Circuit's Interpretation.

For the reasons explained above, the Federal Circuit's interpretation of the term "resides" in Section 1400(b) is contrary to both the statutory language and this Court's prior decisions. It is also unfair to accused infringers, particularly those sued by non-practicing entities seeking to settle for less than the nuisance value of the litigation. Accordingly, the Court should reaffirm its holding in *Fourco* that the scope of Section 1400(b) is not "supplemented" by the general venue statute, and that the term "resides" in Section 1400(b) refers to the place of incorporation of corporate defendants.

If the location of a corporate defendant's principal place of business is different from its place of incorporation, the principal place of business

frequently will be a permissible venue under the second clause of Section 1400(b). A defendant's principal place of business is "a regular and established place of business" within the meaning of the second clause of Section 1400(b). *See* Chisum on Patents § 21.02 (Lexis 2017) ("Generally, any physical location at which business is conducted will suffice" as a "regular and established place of business."). From the defendant's perspective, its principal place of business is unlikely to be an inconvenient venue. In addition, allowing patent infringement suits to be filed in the alleged infringer's principal place of business helps to prevent an undue concentration of suits in the District of Delaware, where many corporations are incorporated. *See* Jeanne C. Fromer, *Patentography*, 85 N.Y.U. L. Rev. 1444, 1492 (2010) (noting that many corporations are incorporated in Delaware, but few have their principal place of business there).

Section 1400(b) further provides that a plaintiff seeking to establish venue based on "a regular and established place of business" must allege that "the defendant has committed acts of infringement" in the district. 28 U.S.C. § 1400(b). If the place of business at issue is the defendant's *principal* place of business, it will often be possible for the plaintiff to allege that acts of infringement were committed in the district.

Consideration of the second clause of Section 1400(b) provides additional context for the decision of this case. When a plaintiff seeks to establish venue in a patent case based on allegations that the defendant has a "regular and established place of

business" in the district and has committed acts of infringement there, the plaintiff should be required to allege a connection between the acts of infringement and the place of business. Courts have recognized this principle in cases involving a corporate defendant and its separately-incorporated subsidiary. In such cases, the second clause of Section 1400(b) is not satisfied merely because a subsidiary of the corporation has a regular and established place of business in the district and the parent is alleged to have committed acts of infringement in the district. *See L. D. Schreiber Cheese Co. v. Clearfield Cheese Co.*, 495 F. Supp. 313, 318 (W.D. Pa. 1980); Chisum on Patents § 21.02 (Lexis 2017) ("A defendant corporation does not have a regular and established place of business in a district merely because a subsidiary has such a place.").[6] Similar considerations apply when large corporations such as GE engage in multiple lines of business through separate business groups. *See* www.ge.com (last visited Feb. 6, 2017) (listing, among others, aviation, digital, healthcare, lighting, and oil & gas). The fact that GE has established a place of business for its healthcare business in a district, for example, should not result in GE being subject to suit in that district regarding a patent that its aviation group is alleged to have infringed.

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[6] Courts have had little occasion to consider the limits of the second clause of Section 1400(b) in recent years, since a large majority of patent infringement cases involve corporate defendants and the Federal Circuit's broad interpretation of Section 1400(b) renders its second clause superfluous for corporations.

Instead, there should be a connection between the defendant's place of business and the alleged acts of infringement. *See In re Cordis Corp.*, 769 F.2d 733, 737 (Fed. Cir. 1985) (observing, in discussion of a venue case, that there was "no evidence" that promotional seminars conducted in the district by a defendant's sales representative "were carried on concerning the specific product which was the subject of the infringement action"); *Scaramucci v. FMC Corp.*, 258 F. Supp. 598, 602 (W.D. Okla. 1966) (second clause of Section 1400(b) not satisfied by allegation that a division of the corporate defendant with no connection to the alleged infringement had a place of business in the district). *But see Gaddis v. Calgon Corp.*, 449 F.2d 1318 (5th Cir. 1971) (disagreeing with *Scaramucci*). Although the Court need not interpret the second clause of Section 1400(b) in this case, its language informs the meaning of the term "resides" in the first clause of that statute, and provides further support for a balanced interpretation of the special venue statute for patent infringement actions. Both clauses of Section 1400(b) work together to achieve that balanced approach, and each clause informs the other.

CONCLUSION

The Court should reject the Federal Circuit's overbroad interpretation of 28 U.S.C. § 1400(b) and adopt a balanced approach to venue in patent cases

that is consistent with the statutory language and this Court's prior decisions.

Respectfully submitted,

Buckmaster de Wolf
Paul R. Garcia
GENERAL ELECTRIC COMPANY
41 Farnsworth Street,
Boston, MA 02210

Robert A. Long, Jr.
Counsel of Record
Richard L. Rainey
Ivano Ventresca
COVINGTON & BURLING LLP
One CityCenter
850 Tenth Street, NW
Washington, DC 20001-4956
rlong@cov.com
(202) 662-6000

Counsel for Amicus Curiae

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